

**Pension Fund Committee**  
Meeting to be held on 15 July 2011

Electoral Division affected: All
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## **Strategy for the Procurement of Global Equity Managers**

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### **Executive Summary**

As part of implementing its investment strategy, the Fund wishes to appoint 2 to 4 global equity managers with complementary investment styles to manage its £1,500m allocation to actively managed equities. The Fund proposes to do this by the creation of a framework of around 10 investment managers giving the fund the flexibility to switch easily between managers on the framework if circumstances should dictate. The Fund proposes to use the consultancy Bfinance to manage the selection and appointment process.

### **Recommendation**

The Committee is asked to approve the procurement of the global equity manager framework including the appointment of Bfinance to run the selection and appointment process, as set out in the report.

### **Background and Advice**

The Fund currently has actively managed equity allocations split between overseas and UK mandates. Newton Investment Management manages an overseas equities mandate of £646m at 30 April 2011, JP Morgan has a £517m UK equities mandate and BNY Mellon manages a temporary tracker equity mandate of £717m. In addition, Legal & General manages a passive balanced tracker fund (across equities and bonds) of £1,067m.

The investment strategy approved by the Committee in December 2010 includes a switch to actively managed global equity mandates without a pre-determined geographical allocation.

The Investment Panel have considered the options for the global equity mandate, and recommends the appointment of a framework of equity investment managers, comprising around 10 managers with a range of investment approaches and styles, from which 2 to 4 managers will be awarded funds to manage immediately.

The Investment Panel anticipates that some £1,500m will be placed with 2 to 4 equity managers with complementary investment styles. This will replace the

mandates currently managed by Newton, JP Morgan and BNY Mellon. Having a framework of managers in place will mean that funds can be awarded to different managers quickly and easily when circumstances warrant and will provide the Fund with greater flexibility to respond to both opportunities and the global economic context prevailing at the time.

A mini-competition has been run amongst the Manager Selection Consultant's Bench and subject to the Committee's approval of the framework approach, it is proposed that consultants Bfinance be appointed to run the selection and appointment process, including managing the tender and OJEU notices.

Bfinance is an independent consultancy with substantial experience in selecting equity managers for both private and public sector investors. Their bespoke approach, which incorporates the specific requirements of the client and does not rely on pre-approved buy lists, impressed the Investment Panel.

It is proposed to use the restricted tender process with a view to making a final decision on the appointment of the equity managers' bench and initial funding awards in December 2011.

The restricted tender process is a two stage process. Stage 1 involves a very detailed analysis of returns from interested bidders. Bfinance advise that around 100 bids are expected from investment management firms that will be reduced to a short list of up to 20 managers, who will be invited to interview. It is expected that around 10 managers will be appointed to the framework bench.

Bfinance's analysis of bidding managers would take into account:

- Suitability to objectives of Fund
- Stability of the Organisation
- Experience
- Product Support (Assets Won/Lost)
- Team Resources
- Team Stability
- Alignment of Interests
- How representative the strategy proposed is within manager's business
- Outperformance / Risk consistency (Performance, Up & Down Analysis, Durability, Maximum Drawdown)
- Risk consistency (Volatility)
- Management Fees

Bfinance's selection process involves:

Step 1: Mandate assessment and preparation of bespoke questionnaire

Step 2: Definition of universe of candidates  
Bfinance uses its presence in 7 countries to identify managers that may be candidates for the framework

- Step 3: Data collection and verification  
Bfinance carries out extensive data verification work including identification of inconsistencies in data submitted
- Step 4: Quantitative and Qualitative analysis  
Results are analysed weighting performance over different periods with a view to assessing likelihood of past performance repeating.
- Step 5: Presentation of results to Investment Panel
- Step 6: Due diligence, interviews and final selection  
Bfinance prepares targeted questions for each short-listed manager

The broad award criteria are provisionally assumed to be:

<b>Award Criteria</b>	<b>Weighting</b>
Price	30%
Capacity and capability of the tenderer to provide the services	25%
Details of the tenderer's methods of working	20%
Experience of comparable service provision	25%

### **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

Without the proposed appointment of global equity investment managers, the Fund will continue to be managed by its existing managers with a large proportion of its equity investments restricted to the UK. With the globalisation of companies and markets, the UK market is becoming increasingly restricted. By continuing the geographical constraints, it reduces the opportunity to diversify the Fund's investments across markets and sectors as well as missing the opportunity to appoint new managers with attractive investment approaches.

**Local Government (Access to Information) Act 1985**  
**List of Background Papers**

Paper	Date	Contact/Directorate/Ext
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N/A

Reason for inclusion in Part II, if appropriate

N/A